UNITED NATIONS

DEPARTMENT OF PUBLIC INFORMATION

NON-GOVERNMENTAL ORGANIZATIONS SECTION

DPI/NGO/SB/91/6

WORLD ENERGY SITUATION

(Not an official record or press release. This summary is made available to NGO representatives for their information and free dissemination.)

On 14 February, 1991, Mr. Charles Constantinou, Chief of the Energy and Resources Branch at the Department of International Economic and Social Affairs (DIESA), briefed NGO representatives on the world energy situation.

Mr. Constantinou began by reviewing the world energy situation over the last century. During the nineteenth century up to the Second World War, the world's main energy source was coal. Oil became important during and after the First World War. There were numerous discoveries of oil prior to the Second World War, but the real development of these resources only began in the fifties and sixties, especially in the Middle East due to the magnitude of oil reserves in that region. That period was characterized by economic growth, not only among the industrialized countries, but also developing countries. This development was fueled by low oil prices. In 1950, for example, one barrel of oil was less than three dollars, whereas now it is 20 dollars a barrel.

The economic development during the sixties gave rise to fear among some nations, which expressed their concern that the raw materials of the world would not suffice to meet increasing demand. They were also afraid that this development would lead to environmental constraints and thus hinder the upward trend of living standards. Politically, the most important development during that period was that many developing countries gained independence. But the political independence of these countries left them economically dependent on the developed countries. Their oil resources were exploited by transnational oil corporations and exported to the developed countries at low prices. The enormous profit gained from oil production benefitted both the oil companies and the governments of the producing states.

During the 1960s and early 1970s, energy consumption and thus the demand for oil increased considerably due to continuous economic growth. The increase in oil consumption rose by seven per cent per annum. This development encouraged the OPEC countries to call for higher oil prices, which led to the January 1971 Teheran Agreement and the April 1971 Tripoli Agreement. In these agreements the OPEC countries and the oil companies set up guidelines for a steady increase of oil prices over the following five years.

The 1973 Middle East war changed the relations between the oil companies and the host governments of the OPEC countries. For the first time the OPEC countries took charge of oil pricing policies and determined the level of oil production without consulting the oil companies. This separation between the two parties led to a series of nationalizations in most of the OPEC countries, with the host government taking over the oil reserves and paying compensation to the oil companies.

This OPEC policy was accompanied by an oil embargo against some oil-importing countries such as the United States and the Netherlands. The embargo was imposed on behalf of the OAPEC (the Organisation of Arab Oil Exporting Countries) and led to determined efforts by the industrialized countries to reduce their oil consumption and explore domestic energy resources. They aimed at gaining independence from the OPEC countries and imported oil. At the same time there was a determined effort for increased conservation that led to a decrease in energy consumption.in terms of energy that is needed for one unit of economic output. But in absolute terms the demand in energy increased as economic growth continued, especially in developing countries.

The reduction of oil imports by industrial countries resulted in a significant drop in the exports of oil from the OPEC countries. At the beginning of the 1980s, for example, the OPEC countries produced 32 million barrels of oil per day, whereas in 1986 it was only 15 million barrels. Thus the oil price in that year collapsed. (In the early 1970s the price of a barrel of oil was $1.30, in the early 1980s it had gone up to $34-40 a barrel. But in 1986 it had dropped down to below $10 dollars a barrel). Since then, the price has fluctuated roughly between $12 and $20 a barrel and the consumption of oil has resumed an upward trend.

In the meantime proven oil reserves in the world increased to one trillion barrels. This would be enough to cover the oil demand in the world over the next 50 years at the current rate of consumption. (Probable and possible reserves of conventional and unconventional oil are much larger). Also coal and natural gas resources are huge, so the old fears of limits to growth because of lack of resources have become obsolete.

Despite the magnitude of proven oil reserves in OPEC countries, production capacities deteriorated during the 1980s to the point where the gap between demand for OPEC oil and production capacities was closing fast. Considerable investments for new production capacities involving financing, technologies and trained personnel were required. Several OPEC countries could not provide such resources and both Iraq and Venezuela had initiated consultations with transnational oil corporations for new arrangements in the production of proved reserves and exploration.

Since 1986, the output of oil in the United States has fallen from about nine million barrels a day to seven million barrels a day, and even with additional exploration for oil this rate is bound to decline even further. The production of North Sea oil has also peaked. In the Soviet Union (which is the biggest oil producing country in the world), production also declined considerably.

One of the problems of oil production is that if oil fields are discovered and put into full production immediately, they are eaten up very fast. (One example for this being a huge Alaskan oil field with about 10 billion barrels of oil, which started production in 1977 and is already two-thirds depleted).

Another factor that makes energy policy so complicated is that most of the world's oil resources are located in the Middle East. In 1947, a non-governmental organization, the International Cooperative Alliance, asked the United Nations' Economic and Social Council to establish a commission to manage the oil resources in the Persian Gulf. But nothing has been done so far by the international community to face this geologic phenomenon, according to Mr. Constantinou.

Mr. Constantinou said that the lack of co-operation and political will among states is an obstacle to the development of energy policy and its prospects. Even in the different organizations of the United Nations system there is no consensus on how to tackle energy issues. In terms of new and renewable sources of energy all states agree to explore all possibilities, but in the absence of major technological breakthroughs, we cannot ignore the world's dependence on conventional energy, be it coal, gas or oil.

Mr. Constantinou concluded by saying that a most important task of the United Nations is to keep reminding Member States that the only possibility to find a solution to the problem of the world energy situation is through dialogue and cooperation. Unless a compromise can be found the instability of the world energy situation will persist for many years to come.